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SUBJECT: Brazil: DEM, Corruption, and the Decline of the Right

REF: BRASILIA 1407

CLASSIFIED BY: Lisa Kubiske, Charge d'Affaires; REASON: 1.4(B), (D)

¶1. (C) Summary. Federal District (Brasilia) Governor Jose Arruda, caught on camera accepting bribes in late November, continues in office to fight the charges against him, ensuring a drawn-out and damaging scandal for the DemC3cratas (DEM), Brazil's leading center-right opposition party. The Arruda scandal revolves around a monthly bribe system very similar to the mensalC#o ("monthly pay-off") corruption scheme associated with President Lula's Workers Party (PT); this case and other recently revealed bribery charges will hurt the opposition's ability to sell itself to the electorate as champions of good governance. The leading opposition party, the centrist Brazilian Social Democratic Party (PSDB), has only been marginally implicated to date but many fear additional charges pending. DEM pushed Arruda out of the party and will try to showcase itself as having reacted responsibly in the face of scandal, but finds itself - like so many other center-right Brazilian parties - in the precarious position of having no clear message to distinguish itself on policy or administrative competency. PT has been little affected by the latest wave of scandal, leading center-right parties within Lula's coalition to solidify their alliances with PT, further hindering the already-weak ability of the center-right to play an influential role in Brazilian politics. End summary.

Caught on Camera

¶2. (SBU) Governor Arruda, considered DEM's bright star of the future and a top-tier prospective vice-presidential candidate for Jose Serra, fell into disgrace when he and several political allies in Brasilia's state government (many from other parties) were caught accepting bribes on camera. The comical, you-tube friendly nature of the footage - including elected officials shoving envelopes of money from contractors into pockets, socks, and blouses - will likely stick in the public consciousness for some time. Despite the visual evidence and the paper trail against him, Arruda insists on remaining in office, fighting the charges against him, and running for re-election. Dep. Onyx Lorenzoni (DEM-Rio Grande do Sul) and other party members told poloff (with no small degree of anger and frustration) that Arruda will probably remain in office through the October 2010 elections, despite the multiple legal cases against him and an impeachment motion. On December 10, Arruda left DEM in advance of an internal party vote the following day, in which he would have been expelled from the party.

¶3. (SBU) The Arruda scandal revolved around monthly payments made by several contracting firms building the Brasilia metro system and other major construction projects. As such, the scandal very closely resembles the mensalC#o (monthly payment) scandal that significantly damaged PT late in Lula's first term, and which created difficulties for him in his 2006 re-election campaign. (The present scandal is increasingly being referred to as the "Arruda mensalC#o.") Two similar monthly payment scandals have surfaced over the past week, including one in which the Federal

Police has announced that it will imminently file a case against the construction company Camargo Correa, charging that it paid out approximately R30 million (17 million USD) to various politicians in recent years. Initial reports released by the Federal Police list several opposition and coalition politicians as recipients of funds, including heavy hitters such as Chamber of Deputies President Michel Temer (PMDB-SC#o Paulo). Federal and state contracts generally release funds to contracting companies on a monthly basis, with weak rules for detailing and justifying line item expenses, making it easy for the mensalC#o to become Brazil's bipartisan favorite corruption scheme.

#### Effects on DEM

14. (C) For DEM, which has the third-largest bench in both the Senate and the Chamber, the Arruda mensalC#o strikes a crippling blow to a party that was already slowly losing support. Dep. Ronaldo Caiado (DEM-Goiás), leader of the party in the Chamber, admitted that the scandal will hurt them in the elections but argued that the party at least distinguished itself by taking action to expel Arruda, in contrast to PT, which took no action against offenders in its own mensalC#o scandal. Though true, it is hard to see the party getting much credit from the public for such a stand. As one party advisor admitted to us, DEM never did get around to expelling Arruda before the Governor left the party, largely because several leading DEM politicians stalled the action out of concerns about having their own ties to Arruda exposed. The Arruda mensalC#o may not ultimately have a large impact on DEM in the 2010 federal elections, Dep. Lorenzoni argued, since most of its key figures are well-established in their northeast and rural

bases. News of corruption in Brasilia will have limited impact, especially when it becomes old news by October. But the vice-presidency slot on the PSDB ticket, which DEM has held in the last two elections, is almost certainly gone. It will also be difficult for the country's largest right-of-center party to win a single governor's seat in the elections. Perhaps the most serious problem for DEM arising from the scandal, as Dep. ACM Neto (DEM-Bahia) told poloff, is that his party, which planned to run on an effective governance platform, "does not have an identifiable message."

#### Effects on the Opposition and PSDB

15. (C) It is not clear at this point whether or how the latest wave of scandal will affect PSDB and its front-running presidential candidate, JosC) Serra. Two Federal District state deputies caught taking bribes in the Arruda mensalC#o were PSDB members, and Arruda has his public defenders within PSDB ranks, much to the chagrin of the rest of the party. The greater worry with the Arruda mensalC#o is that three of the same contracting companies prominent in paying bribes in the Federal District are also prominent in other state governments with PSDB governors, including Sao Paulo (Serra) and Minas Gerais (AC)cio Neves). Sen. Gim Argello (PTB-Federal District), vice-leader of Lula's governing coalition in the Senate, told poloff last week that he believes these companies were likely not engaging in the same practices outside Brasilia, and that the scandal will not affect Serra or Neves. According to Argello, also a real estate investor with his own contracting interests, Arruda's corruption had been known among the local contracting community and created an environment in which bribes were necessary.

16. (C) Dep. Bruno AraC:jo (PSDB-Pernambuco) expressed confidence in his party's ability to weather the Arruda scandal, and even saw the benefit in PSDB gaining at DEM expense, but expressed concern that more news about corruption was coming and that PSDB would have to fight hard to burnish its image as the party of good government. He noted the case of Sen. Eduardo Azeredo (Minas Gerais), Chairman of the Foreign Affairs and Defense Committee, now under investigation for a mensalC#o-type scheme during his campaign for Governor in 1998. AraC:jo characterized the Azeredo case as all smoke, no fire - but conceded that there will probably be a lot of smoke for PSDB to deal with in the coming months. He also asserted, like other PSDB contacts recently, that an all-PSDB Serra-Neves presidential ticket would be the silver bullet means of overcoming voter concerns about corruption and good governance.

#### Where Does the Center-Right Go?

17. (C) The immediate impact of the Arruda mensalC#o scandal seems fairly obvious: that it weakens Brazil's leading center-right party and challenges the opposition's claim that it would govern more cleanly and effectively than PT and its ally PMDB. More broadly, the scandal further limits the ability of the center-right to articulate policy positions, both within the opposition and the conservative wing of the governing coalition. The governing coalition's center-right parties - including PP, PR, PTB, PDT and parts of PMDB - have moved away from their previous independence on key issues and has become increasingly acquiescent to Lula's agenda in Congress. All but one senator from this bloc voted for Venezuela's accession to Mercosul and the vote on the Pre-Salt oil exploration legislation is expected to yield a similar count. Senators from those parties, such as SC)rgio Zambiasi (PTB-Rio Grande do Sul) often tell us that they have concerns with some of the votes they're asked to cast, but there's no indication of any coming rebellion. After all, as one political analyst told us, the leaders of many of these parties have corruption concerns themselves, and are safer within Lula's coalition than outside of it. As Dep. Neto told poloff, "in Brazil today, a party can only be genuinely conservative on economics if it has no scandals."

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